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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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For Petroleum Prices . . .

American consumers and industry may continue to benefit from stable petroleum prices through the end of this year—perhaps longer. The current global oversupply of oil, weakening demand and the inability of the OPEC ministers to agree on prices during the Geneva conference two weeks ago have combined to force many producers to cut prices. What is more, the one million barrel per day reduction in production just announced by Saudi Arabia will not significantly reduce the current world surplus of crude oil, estimated at two to three million barrels per day.

A major factor influencing this turn of events is the sharp drop in global oil consumption. During the two-year period ending in December, 1980—when the price of crude oil jumped by almost 160 per cent—the United States and other major industrial nations cut their dependence on petroleum dramatically. Demand by the seven leading industrial countries fell by 9.4 per cent to 30.8 million barrels per day during this time period, while in the United States alone, consumption declined by ten per cent.

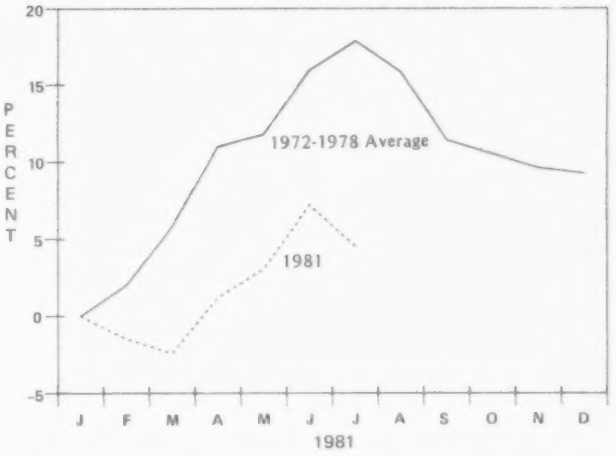
PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Car	÷	Average Number of Gallons Consumed per Car	=	Average Miles Traveled per Gallon of Fuel Consumed
1977	9,839		706		13.94
1978	10,046		715		14.05
1979	9,485		664		14.28
1980	9,390		638		14.72
1981 E	9,465		622		15.22

Source: Federal Highway Administration; Department of Energy

It has become clear that U.S. consumers and business alike have been turning away from oil and seeking less expensive substitutes. Petroleum accounted for close to one-half of total energy consumed in the U.S. in 1978. By 1980, its share was reduced to 45 per cent and so far this year it has averaged less than 42 per cent. This reflects primarily the precipitous decline in the demand for residual fuel oil, used mostly by electric utilities. Coal and nuclear power have been increasingly substituted for petroleum by the utilities in an effort to reduce costs.

GASOLINE CONSUMPTION IN 1981 (DOT)
VS. THE AVERAGE OF 1972-1978 (LINE)
(PER CENT CHANGE FROM JANUARY)



During the first seven months of this year, gasoline consumption fell 6.4 per cent compared with the same period a year ago, and was 15 per cent less than in 1978. However, for the first time in three years, the number of miles driven on the nation's roads has increased. The Department of Transportation estimates that motorists logged 2.4 per cent more miles during the first half of the year compared with the same period a year ago.

The slide in gasoline consumption—despite increased miles traveled—indicates that a substantial improvement in the fuel efficiency of cars now being driven has taken place (see table). What is more, this conservation effort would have been even more noticeable, had it not been retarded by the slower turnover in cars. New car sales have plummeted during the past two years, as a result of rising sticker prices and lofty finance charges, leaving large numbers of older, less efficient automobiles still on the road.

. . . The Law Of Supply And Demand . . .

Traditionally, consumption of gasoline rises sharply during late spring and summer as many motorists

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take driving vacations and travel more on weekends. During this time period, gasoline demand is usually 10-20 per cent higher than in January. This year, however, gasoline consumption increased only slightly and actually dropped in July, compared with June, counter to the normal seasonal trend exhibited during the 1972-78 period (see chart on the first page).

But conservation efforts have not been limited only to gasoline. Home heating oil consumption has also declined sharply. During the two-year period ending in December, 1980, its use had dropped by more than 12 per cent—while so far in 1981, demand has been running a sizable 20 per cent below the comparable period a year ago. As a result of the high price of home heating oil, about 1.2 million homeowners have converted to either natural gas or less traditional sources of energy such as wood, windmills or solar power. In addition, an even greater number of consumers has upgraded the efficiency of existing oil heating units. This development, together with increased conservation efforts, has reduced oil consumption per burner by approximately 30 per cent since 1976.

. . . Still Work

While inventories of refined petroleum products were drawn down in early August from their record highs registered earlier this year, crude oil stocks still

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/26/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.581	+ .205	+ 5.964
Loans to Depository Inst.	1.726	+ .269	+ 1.025
Float	2.206	– .517	– 3.280
Total Reserve Bank Credit	147.357	– .832	+ 7.618
Treasury Deposits with Federal Reserve Banks	3.106	+ .132	– .734
Currency Outside Banks	124.526	– .903	+ 6.734
Member Bank Reserves:			
Required	41.281	– .017	+ .996
Excess (Deficiency)	.220	+ .003	+ .095
Total Reserves Held	41.501	– .014	+ 1.091
Net Borrowed Reserves	1.260	+ .251	+ .695
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.647	– .104	+ 3.239

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1B	432.1	+ 0.3‡	+ 6.4‡
M-2 (July '81)	1,760.5	+ 5.2	+ 9.1
M-3 (July '81)	2,091.4	+ 9.2	+ 11.7
L (May '81)	2,476.7	+ 7.3	+ 11.0

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 9/4/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.40%	15.65%	14.95%
* Federal Agencies	15.40	16.45	16.65
* Project Notes—Taxfree (46% Taxable Equivalent)	18.52	17.87	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.85	18.00	18.63

‡Finance Company Paper—Prime

5- 14 days	17.00%
15- 29 days	17.13
30- 59 days	17.00
60- 89 days	16.75
90-179 days	15.75
180-239 days	13.00
240-270 days	12.00

‡* Bankers' Acceptances

Oct.	17.00%
Nov.	17.00
Dec.	16.95
Jan.	16.85
Feb.	16.75
Mar.	16.40

‡Industrial Paper—Prime

30- 89 days	17.00%
90-120 days	16.88

†Federal Funds Effective Rate 16.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,882	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,507	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 2.4%	8.6%	– 9.9%
Change in Consumer Prices (all urban consumers)*	Jul '81	14.4%	8.4%	1.2%
Change in Producer Prices*	Aug '81n	3.6%	4.8%	14.4%
Civilian Employment (Thousands of Persons)†	Aug '81n	98,944	98,962	97,003
Unemployment as % of Civilian Labor Force†	Aug '81n	7.2%	7.0%	7.6%
Personal Income*	Jul '81	$ 2,422	$ 2,385	$2,161
Leading Indicators Composite Index (1967=100)†	Jul '81	133.7	133.9	128.1
Industrial Production Index (1967=100) †	Jul '81	153.4	152.9	140.4
Net Change in Consumer Installment Credit†	Jun '81	$ 1.93	$ 1.35	–$ 2.04
U.S. Merchandise Trade Balance †	Jul '81n	–$ 0.54	–$ 2.10	–$ 0.87
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jul '81	1,055	1,021	1,277
New Construction Expenditures*	Jul '81n	$ 235.1	$ 238.7	$ 216.4
Total Business Inventories†	Jun '81	$ 493.5	$ 490.3	$ 464.2
Total Business Sales†	Jun '81	$ 353.0	$ 349.2	$ 305.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

remain high. U.S. oil producers and processors took delivery of substantial amounts of oil under long-term contracts, in the face of falling demand. Whereas earlier this year some accumulation was intentional to serve as a buffer against potential disruptions in the world market, it became apparent by the middle of the second quarter that inventories had grown too large. Stocks of crude petroleum represented more than 80 days of supply compared with an average of about 65 days registered during the past decade.

In light of slumping demand for refined products, sharply higher costs of crude oil (partially due to the complete deregulation of prices in January) and the high costs of storing large inventories of finished products, refiners' profitability has been particularly hard hit during the first half of this year. As a result, many refiners have been forced to slow production significantly, cutting capacity utilization rates to the lowest level since the Great Depression. Others have been forced to close their doors completely.

But A Strong Dollar Helps

In spite of declining oil consumption, the combination of a strong dollar and the current level of oil prices has affected the economies of the developed nations adversely. Since the world price of oil is denominated and paid for in dollars, the rising value of the dollar makes oil imports more expensive in

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/19/81)	128,481	+ 49	+35,276
New York City (8/19/81)	30,039	– 421	+ 8,429
Commercial Paper (8/19/81)	154,039	+ 1,529	+32,905

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/19/81)	182,944	– 612	+22,846
New York City (8/19/81)	53,535	– 179	+ 6,149

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/19/81)	445,764	– 1,126	+46,462
New York City (8/19/81)	105,621	– 1,276	+14,839

Financial Markets

	Friday 9/4/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.20%	+ .20	+ 6.08
180-Day Bills†	17.00	+ .20	+ 6.43
Longest Bill†	17.10	+ .35	+ 6.34
Recent Issues:			
16 1/4s 8/31/83	16.85	+ .27	
14s 6/30/85	16.95	+ .95	
14 7/8s 8/15/91	15.35	+ .14	
13 7/8s 5/15/11	14.80	+ .39	
Municipals:			
Bond Buyer–20 Bond Index* (9/3/81)	13.10%	+ .13	+ 4.32
Blue List Total ($ Million)	$ 626	– $103	+ $ 54
30-Day Visible Supply ($ Million)	$1,345	– $373	– $1,944
Total	$1,971	– $476	– $1,890
Corporates:			
Moody's Aa Composite (9/3/81)	15.77%	+ .09	+ 3.34
30-Day Visible Supply ($ Million)	$8,897	+ $960	+ $5,177
Stocks:			
Dow-Jones Averages:			
Industrials	861.68	– 30.54	– 79.28
Transportation	358.66	– 16.80	+ 33.23
Utilities	106.44	– 3.30	– 6.34
65 Stocks	337.32	– 12.90	– 7.66
Standard and Poor's 500 Stocks	120.07	– 4.01	– 4.81
N.Y.S.E. Composite Index	69.55	– 2.42	– 2.58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	41,602	– 3,122	– 6,733

* 46% Taxable equivalent 24.26%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/4/81	Week Ago
Overnight	16.75%	17.25%
1 month	18.00	18.25
3 month	18.63	18.50
6 month	18.69	18.75
1 year	18.00	18.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.30%	15.20%
Long Term (7 to 15 yrs.)	15.20	15.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/4/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.0252	39.68
Canada	.8354	1.1971
Denmark	.1321	7.5718
France	.1722	5.8085
Germany	.4133	2.4195
Italy	.0008244	1213.00
Japan	.004345	230.15
Mexico	.04008	24.95
Netherlands	.3723	2.6860
Switzerland	.4766	2.0980
U.K.	1.8445	.5422

terms of other national currencies. Despite efforts by the non-OPEC countries to reduce their dependence on imported oil, the depreciation of their currencies vis-a-vis the dollar has increased their energy costs sharply.

For example, West Germany cut imports of crude petroleum and petroleum products by 9.4 per cent in 1980 from the previous year. Yet Germany's petroleum import bill rose by 31 per cent partially because the D-mark fell by 12.5 per cent against the dollar. This year the petroleum import bill may be even higher, since the D-mark has depreciated by about 19 per cent against the dollar and a significant recovery of the German currency before 1982 is unlikely. Further, even such energy sufficient or non-OPEC oil exporting countries as the United Kingdom and Norway, which have benefitted from high world prices for oil, have seen prices for their other imports skyrocket as their currencies depreciated against the dollar.

Conversely, the strong dollar benefits the oil exporters. Even without increasing the price of their oil, the purchasing power of the dollars which they earn has increased sharply in terms of other currencies over the last year. This no doubt has been a factor in encouraging the oil-producing countries to increase their imports. Under the influence of the rising dollar, total OPEC imports grew in dollar terms by 31 per cent in 1980 after increasing seven per cent in 1979, when the dollar was still depressed.

The strength of the dollar has also helped to compensate for sharp cuts in oil production in the face of a worldwide oil glut. OPEC oil production is currently running at about 20 million barrels per day, down from about 27 million barrels per day in 1980. Those oil exporting countries which consume all of their oil revenues in developing their economies have attempted with little success to sustain production in order to have continued cash inflows. However, many of the oil exporting countries have benefitted somewhat from the high interest rates available to dollar holders from dollar-denominated financial assets. This has encouraged a continuing inflow of OPEC funds into both the U.S. and the Eurodollar markets which has helped sustain the dollar exchange rates.

As long as interest rates for dollar denominated assets remain high, it is probable that exchange rates will favor the dollar. This, in turn, should encourage petroleum production at levels high enough to sustain demand at close to current prices, leading to stable energy prices. However, the other developed economies (as well as the less developed ones) must look to continued energy conservation and increased exports in order to adjust to the effects of the strong dollar. H

monetary muscle

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